General Business, Financial and Other Risk Factors

We anticipate having future operating and net losses We have incurred operating and net losses every year since we began operations We have invested significant amounts of capital and other expenditures in developing our business and deploying our networks systems and services and we will continue to invest capital for the operation of our business We will continue to have *significant operating and net losses in our business until we establish a sufficient revenue-generating customer base to cover our costs* For the quarter ended September 30, 2003, we had net operating losses of $60 7 million and net losses including reorganization items of $63 1 million Even if we emerge from bankruptcy we can make no assurances that we will achieve or sustain profitability or generate sufficient operating income to meet our working capital capital expenditure and debt service requirements

Our customer contract with Level 3 Communications represented 14% of our total revenues for the quarter ended September 30, 2003 and the loss of this customer would materially and adversely impact our business. *Our* largest customer *is* Level 3 Communications, Inc , who is the assignee of Genuity Solutions Inc s interest in the Genuity/Allegiance Integrated Network Solution Purchase Agreement Revenues from this contract were $27 3 million and $26 2 million for the three months ended September 30 2003 and 2002, and $84 2 million and $60 5 million for the nine months ended September 30, 2003 and 2002, respectively This represented 14% and 12% of our total revenues for the quarters ended September 30, 2003 and 2002, respectively and 39% and 37% of our data revenues for the same periods In addition, approximately 85% of the reciprocal compensation earned by us from other carriers is as a result of the other carriers terminating the Level 3 traffic on our networks Reciprocal compensation revenues for the three months ended September 30 2003 and 2002, were $4 0 million and $7 1 million and for the nine months ended September 30 2003 and 2002 were $19 8 million and $25 0 million, respectively We anticipate that Level 3 will continue to be our largest customer for the foreseeable future If we fail to meet the performance warranties under this contract or fulfill certain other obligations under this contract, Level 3 may be allowed to offset future payments to us and if such failure continues for an extended period of time Level 3 could terminate this contract The contract contains specific provisions that allow Level 3 (a) to decrease its purchase commitment in certain situations, including but not limited to if Level 3's customer AOL reduces its services with Level 3 under Level 3 s contract with AOL, or (b) to decrease the purchase commitment or terminate the contract if Level 3 receives a bona fide competitive offer for a certain amount of services from a third party for services similar in type to the services provided by Company under the contract and the Company does not agree to reduce its prices to match the competitive offer In addition, if the Company matches any qualifying competitive offer from a third party the Company could experience reduced revenues If we were to lose some or all of the revenues under the contract, we do not believe we could implement sufficient cost-cutting measures to offset such decrease in revenues or be able to replace the revenues in a short period of time The resulting reduction in revenue (including reduction in reciprocal compensation revenues) and/or loss of this contract would have a material adverse effect on us Please see the discussion of this customer contract under "Management s Discussion and Analysis of Financial Condition and Results of Operations "

***One of our primary invoice processing vendors* has a "going concern" qualification and any financial difficulties experienced by it could have an adverse impact to our business** We have an invoice processing agreement (the "Billing Agreement") with Daleen Solutions, Inc ("Daleen") Daleen is one of our primary invoice processing vendors for billing our customers and we believe that the amounts paid by us under the Billing Agreement represent a substantial portion of Daleen's revenues The original term of the Billing Agreement expires on December 31, 2003 and automatically renews for additional one year terms, unless either party gives the other party notice of its intent to not renew this agreement at least sixty days prior to the expiration of then existing term On October 30, 2003, Daleen notified us that it was electing to not renew the Billing Agreement, but that it would like to discuss the terms of a new contract On October 31, 2003, Daleen filed a Motion For Relief From the Automatic Stay Under Section 362 of the Bankruptcy Code ("Motion") seeking relief from the automatic stay so that it could send us notice of its intent to elect to not renew the Billing Agreement On November 19, 2003, the Bankruptcy Court denied Daleen's Motion, but Daleen may appeal the Bankruptcy Court's ruling If the Bankruptcy Court's decision is not appealed or upheld on appeal, the Billing Agreement will renew on December 31, 2003 for an additional one year term on the same terms and conditions as the existing Billing Agreement

On January 30, 2003 Daleen Technologies, Inc 's auditors, KPMG LLP, issued an Independent Auditors' Report on Daleen Technologies Inc that contained a "going concern" qualification Daleen is a wholly owned subsidiary of Daleen Technologies Inc ("Daleen Technologies") On May 21 2003 Daleen Technologies filed a Form 8-K with the Securities and Exchange Commission warning that if we fail to continue business with Daleen Technologies and Daleen Technologies fails to obtain additional financing or fails to engage in one or more strategic alternatives, it may have a material adverse effect on Daleen Technologies' ability to operate as a going concern In addition, on October 31, 2003, Daleen Technologies filed a Form 8-K with the Securities and Exchange *Commission warning that if we cease to do business with Daleen Technologies and Daleen Technologies fails to obtain additional* financing or fails to engage in one or more strategic alternatives it may have a material adverse effect on Daleen Technologies ability to operate as a going concern

There can be no assurance that Daleen will remain in business through the migration of our customers off the Daleen service or provide the services required under the Billing Agreement If Daleen ceases to remain in business or fails to provide the services under the Billing Agreement, it may have a material adverse effect on our company and our business

The regulation of interconnection with incumbent local carriers involves uncertainties, and the resolution of these uncertainties could adversely affect our business. Although the incumbent local carriers are required under the Telecommunications Act of 1996 to unbundle and make available elements of their network and permit us to purchase only the origination and termination services that we need thereby decreasing our capital and operating expenses, such unbundling may not be done as quickly as we require may be priced higher than we expect, and/or the incumbent local exchange carriers may erect barriers to use of such elements This is important because we rely on the facilities of these other carriers to provide services to our customers Our ability to obtain these interconnection agreements on favorable terms, and the time and expense involved in negotiating them, can be adversely affected by legal and regulatory developments

The United States Supreme Court vacated a FCC rule determining which network elements the incumbent local carriers must provide to competitors on an unbundled basis On November 5, 1999, the FCC released an order revising its unbundled network element rules to conform to the Supreme Court's interpretation of the law, and reaffirmed the availability of the unbundled network elements, including local loops and dedicated transport, the principal elements used by us We use unbundled local loops and unbundled high capacity digital loops to connect our customer locations to our voice and data transmission equipment colocated in the incumbent local carriers' central offices, and dedicated transport to connect our transmission equipment to our switches and data equipment which are generally located at our central offices The FCC also stated its intention to review every three years the unbundling obligations of incumbent local exchange carriers The U S Court of Appeals for the District of Columbia Circuit remanded, but did not vacate, the FCC's Order on May 24, 2002 The FCC's request for rehearing of that decision was denied, but the Court agreed to delay until February 20, 2003 the issuance of the mandate On February 20, 2003, the FCC announced its decision in the triennial review as briefly discussed below While these court and FCC proceedings were pending, we entered into interconnection agreements with a number of incumbent local carriers through negotiations or, in some cases, adoption of another competitive local carrier's approved agreement These agreements remain in effect, although in some cases one or both parties may be entitled to demand renegotiation of particular provisions or of the entire agreement based on intervening changes in the law However, it is uncertain whether any of these agreements will be so renegotiated or whether we will be able to obtain renewal of these agreements on as favorable terms when they expire The incumbent local exchange carriers have in each instance requested renegotiation of our interconnection agreements

Our facilities-based strategy allows us to control much of our network but we are still dependent on certain essential network elements that we lease from incumbent carriers On December 20 2001, the FCC released a Notice of Proposed Rulemaking as part of its comprehensive "triennial review" of the unbundling rules it implemented on November 5, 1999 In this review, the FCC examined the circumstances under which incumbent local exchange carriers will be required to make parts of their networks available to carriers like Allegiance on an unbundled basis under Section 251 of the Telecommunications Act of 1996 In particular, the FCC reviewed whether *incumbents should be required to offer on an unbundled basis, among other things*, local voice grade loops, unbundled network element platforms, high capacity loops such as those we use for many of our data and integrated voice and data services, subloops, network interface devices, the high-frequency portion of the loop switching, and interoffice transmission facilities The FCC announced its decision on February 20 2003 in the triennial review proceeding and released the written order on August 21, 2003 In addition, the FCC has subsequently issued clarifications to the order through errata General highlights of the order are as follows

- In general the FCC s triennial review order revised its standard of review for determining when unbundled network elements are made available to competitors Specifically the FCC s revised standard recognized the benefits of facilities-based competition and confirmed that continued provision of UNEs is essential to the growth of facilities-based networks such as those operated by us

- With respect to unbundled switching, the FCC adopted a process whereby the state public utilities commission will consider whether competitors are impaired if they do not have access to Bell companies' switch services on a UNE basis under the regulatory construct known as unbundled network element platform ("UNE-P") We expect that this state review will result in a review of the hot cut process (transferring a customer from the Bell's systems to our systems) and could potentially enhance our ability to transition new customers to our networks

- The decision also confirms that facilities-based competitive carriers like us can continue to obtain access to loops in almost all markets The FCC also clarified the conditions under which the Bell companies must make available unbundled loops for competitors This should reduce the time it takes us to install a customer s services, especially in certain ILEC areas

- On transport issues, the FCC adopted a standard proposed by us whereby transport will be taken off the UNE list on a route-specific basis when there are two competitive wholesale providers of transport or three self-provisioned transport links by non-ILEC sources This approach is consistent with our smart-build strategy for local transport of using ILEC facilities only as a transition to dark fiber or the facilities of other providers

- The FCC decision also makes it easier for competitive carriers like us to obtain Enhanced Extended Links ("EELs") These are combinations of loops and transport that connect back to the competitive carrier's switch Although we do not currently use EELs on an extensive basis, this aspect of the triennial review gives us an opportunity to efficiently expand our facilities-based network to additional areas not directly accessed by our current colocation footprint and to potentially reduce the number of colocations we have thereby reducing our network costs

- The FCC exempted hybrid fiber/copper loops that provide packetized data transmission from the UNE rules The FCC preserved access to high-capacity loops, such as DS1's, DS3's, dark fiber and copper subloops that transmit services using existing TDM (time division multiplexing) technology Since virtually all of our current business customers are served using unbundled copper loops or DS1's that use TDM technology, the FCC's exemption of hybrid fiber/copper loops that provide packet-based technology should not impact our current operations In the future, as new packet-based technologies are deployed in the local loop infrastructure, this ruling by the FCC could cause an adverse impact on our ability to compete with the ILECs for small to medium-sized business customers We and other competitive carriers have appealed the broadband sections of the triennial review order in the D C Circuit Court of Appeals based on our view that the FCC's exemption of hybrid/fiber loops is unlawful and in violation of the Telecommunications Act of 1996 We are unable to predict at this time the timing or outcome of the decision by the D C Circuit Court on this matter

- The FCC also exempted from unbundling any end-to-end fiber loop that is defined as fiber-to-the-home ("FTTH") for new greenfield developments After the release of the triennial review order, the FCC issued an errata that expanded the FTTH definition beyond residential dwellings to include end-to-end fiber loops that also extend all the way to a premise that would include small businesses that we might serve We and other competitive carriers have sought a stay of this aspect of the triennial review order which is also pending before the D C Circuit Court of Appeals The D C Circuit has subsequently consolidated all stay motions and appeals of the triennial review order and has indicated its intent to consider all challenges to the triennial review order on an expedited basis The Court has announced a schedule for hearing all of these appeals with oral arguements scheduled for January 28, 2004 We anticipate a decision from the D C Circuit Court could be issued as early as the second quarter of 2004 If the FTTH section of the triennial review order is not ultimately overturned it would prevent us from being able to provide services to small businesses in new greenfield developments

In addition to the potential impact on our business from the hybrid/fiber loop and the FTTH sections of the triennial review, the ILECs have recently filed petitions for reconsideration at the FCC seeking greater relief from certain additional aspects of the FCC s decision These petitions seek to expand the FTTH new-build greenfield exemption to apply also to fiber-to-the-curb deployments as well We and other competitive carriers are opposing these petitions at the FCC, and a decision could be forthcoming in the next few months If the FCC should grant one or more of these ILEC requests, it would materially reduce the number of small businesses that we can serve and would have a material adverse effect on our business

Any action by the FCC, state regulators or the courts limiting the availability of unbundled network elements, especially unbundled local loops network interface devices or interoffice transmission facilities, could increase our costs and otherwise have a material adverse impact on our business

On February 15 2002 the FCC released a Notice of Proposed Rulemaking requesting comment on the future regulatory treatment of wireline broadband Internet access services The FCC has tentatively concluded that when an entity provides wireline broadband Internet access over its own transmission facilities, the service should be classified as an information service, rather than a telecommunications service If the FCC adopts this conclusion, wireline broadband Internet access services provided by local exchange carriers would be subject to substantially less regulation, and this could result in the incumbent carriers not having to provide unbundled loops or unbundled high capacity digital loops over the lines used by us to provide broadband Internet access We purchase unbundled high capacity digital loops from incumbent carriers to provide our own broadband Internet access service and integrated access service While we cannot predict the outcome of this proceeding, any curtailment of the incumbent carriers' unbundling obligations for the loop component used by them to provide broadband Internet access services or changes in the cost basis therefore could materially increase our costs and adversely affect our ability to compete effectively with the incumbent carriers' broadband Internet access products Our current understanding is that the FCC will issue this rulemaking in the near future

In early May 2003 the Illinois legislature passed and the governor signed legislation that could significantly increase rates for unbundled local loops that SBC charges to competitors including us in Illinois We are currently evaluating the impact of the legislation on our business, but we expect that our network expenses for unbundled loops in certain local calling zones of the Chicago metropolitan area may be increased to a level that will make our products and services less competitive with SBC's retail offerings The legislation grandfathers up to 35,000 existing lines under the old rates for two years but applies to all new installations immediately In addition, any lines that churn off of service may not be replaced by new lines at the grandfathered rate, but rather will be at the new rates A lawsuit was filed seeking to overturn the Illinois law in federal district court and seeking a stay of the effectiveness of the law The district court overturned the law and stayed the effectiveness of the rate increase The seventh circuit court of appeals upheld the lower district court decision It is not clear whether SBC may appeal this ruling to the United States Supreme Court If the district court's decision is not ultimately upheld, we may have to significantly reduce or abandon our efforts to add new lines or customers in certain calling areas of Illinois and evaluate the viability of continuing to operate in the Chicago market when the two year grandfathering period has expired If the district court's decision is ultimately overturned or other states in which we operate were to enact similar legislation, it could have a material adverse impact on our business

The FCC has issued a Notice of Proposed Rulemaking to examine and potentially revise the procedure and rules for calculating the prices that ILECs charge competitors for unbundled network elements (UNEs) The process could result in an increase (possibly material) in the prices that we pay the ILECs for UNEs A material increase in UNE prices, especially for local loops and local transport, would have a material adverse impact on our business

The regulation of access charges involves uncertainties, and the resolution of these uncertainties could adversely affect our business We earn "access charge' revenue by connecting our voice service customers to their selected toll and long distance carriers for outbound calls or by delivering inbound toll and long distance traffic to our voice service customers Our interstate access charges were filed largely mirroring those used by the National Exchange Carrier Association ("NECA"), an association of independent local exchange carriers, and our state access charges were generally set at rates comparable to those set by state associations similar to NECA or of individual incumbent carriers operating in other areas within the same state These charges are generally higher than those charged by the larger incumbent local exchange carriers operating in the same areas because these large incumbent local exchange carriers have many more customers and therefore have lower per unit costs Access charges are intended to compensate the local exchange carrier for the costs incurred in originating and terminating toll and long distance calls on its network and we believe our access charges are appropriately set at levels approximately the same as those of the smaller carriers but we anticipate that these rates will decline over time Our switched access rates will have to be adjusted to comply with future decisions of the FCC or state commissions and these adjustments could have a material adverse effect on us We have entered into a limited number of agreements with other carriers regarding access rates which settled certain access charge disputes We are in the process of evaluating these agreements to determine whether to reject or assume these agreements in our Chapter 11 bankruptcy cases There can be no assurance that we will be able to reject those access agreements, if we are able to reject such agreements, we believe the other carriers would need to pay us for access at our higher tariffed rates which could increase our access revenues

On April 27 2001, the FCC issued a Report and Order in the Access Charge Reform docket addressing competitive local exchange carrier interstate access charge rates The FCC established safe harbor benchmark interstate rates that decrease over three years to the rates charged by incumbent local exchange carriers The FCC stated that interexchange carriers must pay the benchmark rates for the interstate access services they receive or face suit in federal court AT&T has appealed the FCC's Report and Order to the U S Court of Appeals for the District of Columbia Circuit On April 27, 2001 the FCC also released a Notice of Proposed Rulemaking pursuant to which it is examining all forms of intercarrier compensation including access charges, and seeks comment on the feasibility of adopting a bill-and-keep approach for all such compensation Federally-mandated reductions in access charges or adoption of a bill-and-keep approach could have a material adverse effect on us if we are unable to offset them with other revenues

On May 31, 2002 WorldCom Network Services, Inc filed an informal complaint against us at the FCC claiming that it is entitled to a refund of a portion of the interstate switched access charges paid by WorldCom to us prior to the effective date of the safe harbor benchmark rates that it alleges were unjust and unreasonable We have since settled this matter, along with other disputes that each party had against the other The settlement was effective April 15 2003 and was approved by the Bankruptcy Court in the WorldCom Chapter 11 proceeding on May 28 2003 We have not yet assumed this agreement in our Bankruptcy Case and we are evaluating whether to assume or reject this agreement

On May 31 2000 the FCC approved a proposal made by a coalition of the largest incumbent local carriers AT&T and Sprint, to restructure interstate access charges Pursuant to the proposal certain incumbent carriers designated as 'price cap' incumbent local carriers, are required to reduce their interstate access rates to targeted levels approved by the FCC or submit cost studies to justify different rates We anticipate that implementation of the FCC's decision will lead to an industry-wide reduction in interstate access rates, even by those carriers that are not bound by the decision, including smaller carriers Reduction in interstate access rates will have a material adverse effect on us unless we are able to offset the access revenues with other revenues

Several states in which we offer intrastate access services, including Colorado Maryland, Massachusetts, Missouri New Jersey, New York, Texas Virginia and Washington, have proposed or required that access charges of competitive local carriers be capped at the rates charged by incumbent local carriers operating in the same area as the competitive local carriers with respect to calls originating or terminating in such area, except where the competitive carrier can establish that its costs justify a higher access rate through a formal cost proceeding We believe that it is possible that other states will enact similar requirements We also believe, however that it is more likely that many states will use the same approach for intrastate long distance as the FCC ultimately decides to use for interstate long distance If these proposals are adopted, they could have a material adverse effect on our revenues

We could lose revenues if calls to Internet service providers are treated as long distance interstate calls. We earn "reciprocal compensation" revenue by terminating on our network, local calls that originate on another carrier's network We believe that under the Telecommunications Act of 1996, other local exchange carriers should have to compensate us when their customers place calls to our customers who are Internet service providers Most incumbent local carriers disagree A majority of our reciprocal compensation revenues are a result from calls to our customers that are Internet service providers, such as Level 3 Regulatory decisions providing that other carriers do not have to compensate us for these calls could limit our ability to service this group of customers profitably and could have a material adverse effect on us Given the uncertainty as to whether reciprocal compensation should be payable in connection with calls to Internet service providers, we recognize such revenue only when realization of it is probable In addition, the per minute compensation rates the FCC established for calls to Internet service providers under new interconnection agreements are significantly lower than the reciprocal compensation rates under our previous agreements Although no order has yet been issued, it has been reported that on August 7, 2003, the Minnesota Public Utilities Commission established a rate of zero cents for the end-office switching component of terminating local calls subject to reciprocal compensation We believe, based on the recommendation of the Commission staff, that this reduction will not take place until we negotiate and execute an amendment to our interconnection agreement with Qwest in Minnesota to reflect this regulatory change These reductions in compensation will have a material adverse effect on us if we are unable to offset them with other revenues

The obligation to pay reciprocal compensation does not extend to long distance interstate calls The FCC in its Declaratory Ruling of February 26, 1999, determined that Internet service provider traffic is interstate for jurisdictional purposes but also determined that its current rules neither required nor prohibited the payment of reciprocal compensation for such calls In the absence of a federal rule, the FCC determined that state commissions had authority to interpret and enforce the reciprocal compensation provisions of existing interconnection agreements and to determine the appropriate treatment of Internet service provider traffic in arbitrating new agreements The Court of Appeals for the District of Columbia Circuit issued a decision on March 24 2000 vacating the Declaratory Ruling The court held that the FCC had not adequately explained its conclusion that calls to Internet service providers should not be treated as "local" traffic On April 27 2001, the FCC issued its Order on remand from the Court of Appeals and concluded that it had erred in its analysis of Internet traffic in the Declaratory Ruling In that Order, the FCC categorized such traffic as "information access" and held that it is not subject to reciprocal compensation obligations Nonetheless, it established an interim transitional recovery mechanism pursuant to which Internet service provider traffic will continue to be compensated, but at rates declining over a period of three years In a decision issued May 3 2002, the U S Court of Appeals for the District of Columbia Circuit remanded for further proceedings, but did not vacate the FCC's Order on remand holding that the section of the Act on which the FCC relied did not support its conclusion that Internet service provider traffic is not subject to reciprocal compensation In a Notice of Proposed Rulemaking released April 27, 2001 the FCC initiated a rulemaking to examine all forms of intercarrier compensation, including reciprocal compensation and sought comment on the feasibility of adopting a bill-and-keep approach for such compensation Federally-mandated reductions in reciprocal compensation will have a material adverse effect on us if we are unable to offset them with other revenues Additional disputes over the appropriate treatment of Internet service provider traffic are expected

Our success depends on our key personnel and we may not be able to replace key employees who leave, especially during our reorganization under Chapter 11 of the Bankruptcy Code. We are managed by a number of key employees, most notably Royce J Holland, our Chairman and Chief Executive Officer, who is widely recognized as one of the pioneers in managing providers of competitive local exchange services The loss of services of one or more of these key individuals, particularly Mr Holland could materially and adversely affect our business and our prospects Most of our key employees do not have employment agreements, and we do not maintain key person life insurance for any of our employees However many of these key employees are covered by a key employee retention program which has been approved by the Bankruptcy Court

We are dependent on effective billing, customer service and information systems and we may have difficulties in developing, maintaining and enhancing these systems. Sophisticated back office information and processing systems are vital to our growth and our ability to control and monitor costs, bill and service customers initiate, implement and track customer orders and achieve operating efficiencies We have introduced a new billing platform across our geographic markets and have begun to migrate all existing customers to this new billing platform Although we are taking steps to manage the implementation of the new billing system and we believe that the new billing system will enhance our ability to accurately and efficiently bill for our services, we cannot assure you that the transition to the new billing system will not have any adverse impact on our business We believe this new billing system will be more effective and accurate in delivering the quality billing functions that we need Since our inception, we have also been engaged in developing and integrating our essential information systems consisting of our billing system our sales order entry system, our customer implementation system, our electronic bonding systems and our switch information systems In addition, we continue to integrate our acquired businesses These are challenging projects because all of these systems were developed by different vendors and must be coordinated through custom software and integration processes Our sales line count and other core operating and financial data are generated by these systems and the accuracy of this data depends on the quality and progress of the system integration project Although we have made significant progress in our system integration efforts, we have not completed it and we may experience additional negative adjustments to our financial and operating data as we complete this effort These adjustments have not had a material adverse effect on our financial or operating data to date but until we complete the entire project we cannot assure you that any such adjustments arising out of our systems integration efforts will not have a material adverse effect in the future If we are unable to develop acquire and integrate our operations and financial systems, our customers could experience delays in connection of service, billing issues and/or lower levels of client service We also cannot assure you that any of our systems will be successfully implemented on a timely basis or at all, that migrating will be transparent to our users or that our systems will perform as expected because among other things,

- we have and will likely continue to have difficulties in getting products and services from our vendors delivered in a timely and effective manner, at acceptable costs and at the service and performance level required,

- we may fail to adequately identify all of our information and processing needs,

- our processing or information systems may fail or be inadequate,

- we may not be able to effectively integrate such products or services,

- we may not be able to effectively migrate existing customers due to a dispute with our existing billing services provider,

- we may fail to upgrade systems as necessary, and

- third party vendors may cancel or fail to maintain, renew or upgrade our license agreements that relate to these systems

Our failure to successfully implement these systems would have a material adverse effect on our business and prospects

We are dependent on many vendors and suppliers and their financial difficulties may adversely affect our business We depend on many vendors and suppliers to conduct our business For example, we purchase our network assets and customer premise equipment from equipment manufacturers and other suppliers and we lease fiber and other circuits from other carriers as well as from companies who construct these network elements for resale Many of these third parties have experienced substantial financial difficulties in recent months in some cases leading to bankruptcies and liquidations In particular, the providers of fiber for our metropolitan fiber rings as well as our long-haul fiber routes have experienced financial difficulties, including difficulty in raising the necessary capital to complete fiber construction projects and in some cases filing for bankruptcy The financial difficulties of these companies could have a material adverse effect on our business and prospects

On February 14, 2003, Broadwing Communications Services, Inc , a supplier of long distance services to us, alleged that we were in material default of our Master Service Agreement with Broadwing Broadwing is demanding $6 6 million in disputed charges and is threatening to terminate service to our customers Broadwing has also demanded an additional security deposit from us In response, we sought and received a temporary restraining order An agreed preliminary injunction was signed on April 17, 2003, preventing Broadwing from terminating our service and referring the dispute to arbitration This dispute has been stayed while we are in bankruptcy We have not included this dispute in network costs as of September 30 2003, as we believe it is not probable that we will be required to pay this disputed amount

Our financial results could be adversely affected by churn and the financial difficulties of our customers. We expect retail as well as retail and wholesale line churn to continue to average approximately 2% to 3% per month, which means that approximately 2% to 3% of our total number of retail/retail and wholesale lines in service would discontinue our service each month However, our ability to retain our customers and control our churn rate (including line churn) is dependent on a number of factors, including, but not limited to (a) our ability to provide quality service, customer care and accurate and timely billing, (b) our ability to offer competitive pricing and overcome so called "win-back" programs offered by our competitors, (c) our ability to timely meet the needs and demands of our customers, (d) our ability to properly incentivize our sales force to build strong customer relationships, (e) the economic viability of our customers (see the discussion in the following paragraph), (f) the strength and recovery of the United States economy, (g) our ability to limit service disruptions as we optimize our network and migrate our existing customers to our new billing platform and (h) an ability to overcome our customers' concerns regarding our bankruptcy We can make no assurances that our churn rates (including line churn) will not increase If our churn rates (including line churn) increase or are higher than expected, this could have a material adverse effect on our business and prospects

We provide services to small and medium-sized businesses as well as network service providers Many of these businesses have experienced substantial financial difficulties in recent months, in some cases leading to bankruptcies and liquidations The financial difficulties of these companies could have a material adverse effect on our financial results if we are unable to collect revenues from these customers or if such customers reject the customer's contract with us in its bankruptcy In addition, among other things we believe companies in financial difficulty are less likely to expand their operations and related demand for communications services and to migrate from dial-up Internet connections to more advanced dedicated connections such as those that we offer

The financial difficulties of other competitive communications providers could adversely affect our business Many competitive local exchange carriers, long distance carriers, and other emerging communications providers have experienced substantial financial difficulties over the past year in some cases leading to bankruptcies and liquidations

The financial difficulties of these companies could reflect poorly on our own financial stability, may diminish our ability to obtain further capital may adversely affect the willingness of potential customers to move their communications services to an emerging carrier like Allegiance and may result in losses or write-offs of reciprocal compensation and access revenues from these carriers Moreover, we have experienced efforts by established carriers to promote this problem by suggesting to their customers that they should not risk placing their communications services in the hands of an emerging carrier including one that has filed for bankruptcy Some of our competitors have emerged from bankruptcy and others currently in bankruptcy may do so as well Many of these companies have been able to reduce their debt and otherwise recapitalize their business and as a result, may be able to gain greater market share by reducing the prices for their products and services These companies may be able to reduce their prices to a point lower than our prices and yet still be able to make a profit because of their reduced debt We may lose business as a result of this price competition and such loss of business may have a material adverse effect on us

If we do not interconnect with and maintain efficient working relationships with our primary competitors, the incumbent local carriers, our business will be adversely affected Many new carriers including us, have experienced difficulties in working with the incumbent local carriers with respect to initiating, interconnecting and implementing the systems used by these new carriers to order and receive unbundled network elements and wholesale services and locating the new carriers' equipment in the offices of the incumbent local carriers As a competitive carrier we must coordinate with incumbent local carriers so that we can provide local service to customers on a timely and competitive basis The Telecommunications Act of 1996 created incentives for regional Bell operating companies to cooperate with competitive carriers and permit access to their facilities by denying such companies the ability to provide in-region long distance services until they have satisfied statutory conditions designed to open their local markets to competition The FCC has granted approval to BellSouth Verizon and SBC to provide in-region long distance service in every state where they operate At this time the FCC has also granted approval for Qwest to provide in-region long distance service in every state where they operate with the exception of Arizona Once authorized to provide long distance service the RBOCs may have less incentive to be accommodating to us In addition, these companies may limit the development of their systems that they were doing prior to being permitted to offer long distance services

The regional Bell operating companies have been fined numerous times by both federal and state authorities for their failure to comply with applicable telecommunications laws and regulations We do not believe these fines have had any meaningful impact on the anticompetitive practices of many of these companies and in fact believe that these practices are increasing in most of our markets We attempt to enforce our rights against these incumbent monopolies but often times the remedies are inadequate to change their anticompetitive practices and in any event provide us with little or no recovery of the damages we have suffered as a result of these practices Moreover efforts by us to enforce our rights against these companies may further diminish the level of cooperation we receive from them If we cannot obtain the cooperation of a regional Bell operating company in a region, whether or not it has been authorized to offer long distance service or a regional Bell operating company otherwise fails to meet our requirements for example, because of (1) labor shortages, (2) work stoppages or (3) disruption caused by mergers or other organizational changes or terrorist attacks, our ability to offer local services in such region on a timely and cost-effective basis will be materially adversely affected Specifically, Verizon and the unions, Communications Workers of America and the International Brotherhood of Electrical Workers, have been working with a Federal mediator since July 29, 2003 attempting to renegotiate the applicable union contracts Although the union contracts expired at midnight August 2, 2003, Verizon employees in 13 states and the District of Columbia have reported to work as normal We purchase services from Verizon to enable us to provide services to our existing and new customers and any strike by these unions could have a material adverse affect on our business

We have experienced difficulties also with receiving payment from the incumbent local exchange carriers on reciprocal compensation access charges, and other services provided by us to them These balances in some instances may be significant and material We have generally been able to reach mutually acceptable settlements of these amounts in the past, but there can be no assurance that we will be able to do so in the future If we do not receive payments from the incumbent local exchange carriers with respect to these services provided by us to them and/or if we are unable to reach settlement agreements for the incumbent local exchange companies to pay amounts owed to us, it could have a material adverse effect on us In addition, some of our interconnection agreements allow the incumbent local exchange carriers to increase the security amount held by them In addition, some utilities may seek additional assurances in the form of deposits or other security in accordance with our bankruptcy filings and the bankruptcy rules If we are forced to increase any security provided to these carriers, this would reduce the amount of cash available for expenses of our business which could have a material adverse effect on our business

Our principal competitors for local services, the incumbent local carriers, and potential additional

competitors, have advantages that may materially adversely affect our ability to compete with them. The telecommunications industry is highly competitive In each of the markets targeted by us we will compete principally with the incumbent local carrier serving that area Many of our current and potential competitors in the local market have financial, technical, marketing, personnel and other resources including brand name recognition, substantially greater than ours, as well as other competitive advantages over us Incumbent local carriers also enjoy other advantages that may adversely affect our ability to compete with them such as our need to purchase critical elements of our network from them Incumbent local carriers are established providers of local telephone services to all or virtually all telephone subscribers within their respective service areas Incumbent local carriers also have long-standing relationships with federal and state regulatory authorities FCC and state administrative decisions and initiatives provide the incumbent local carriers with pricing flexibility for their

- private lines, which are private, dedicated telecommunications connections between customers
- special access services which are dedicated lines from a customer to a long distance company provided by the local phone company, and
- switched access services, which refers to the call connection provided by the local phone company's switch between a customer s phone and the long distance company's switch

In addition, with respect to competitive access services, such as special access services as opposed to switched access services, the FCC has granted incumbent local carriers increased pricing flexibility and deregulation for such access services after certain competitive levels are reached If the incumbent local carriers are allowed by regulators to offer discounts to large customers through contract tariffs engage in aggressive volume and term discount pricing practices for their customers, and/or seek to charge competitors excessive fees for interconnection to their networks or access to unbundled network elements, competitors such as us could be materially adversely affected If future regulatory decisions afford the incumbent local carriers increased pricing flexibility or other regulatory relief such decisions could also have a material adverse effect on competitors such as us

We also face, and expect to continue to face, competition in the local market from other current and potential market entrants, including long distance carriers seeking to enter, reenter or expand entry into the local exchange marketplace such as AT&T, WorldCom and Sprint, and from other competitive local carriers, wireless carriers, resellers, competitive access providers, cable television companies, electric utilities, microwave carriers and private networks built by large end users In addition, the development of new technologies could give rise to significant new competitors in the local market

Significant competition in providing long distance and Internet services could reduce the demand for and profitability of our services. We also face significant competition in providing long distance and Internet services Many of these competitors have greater financial, technological, marketing, personnel and other resources than those available to us

The long distance telecommunications market has numerous entities competing for the same customers and a high average turnover rate as customers frequently change long distance providers in response to the offering of lower rates or promotional incentives Prices in the long distance market have declined significantly in recent years and are expected to continue to decline We face competition from large carriers such as AT&T, WorldCom and Sprint, wireless carriers and many smaller long distance carriers Other competitors include regional Bell operating companies providing long distance services outside of their local service area and, with the removal of regulatory barriers, long distance services within such local service areas, other competitive local carriers, microwave and satellite carriers and private networks owned by large end users The FCC has granted approval to provide in-region long distance service to BellSouth and Verizon in all of their states, to SBC Communications in California, Texas, Oklahoma, Missouri Arkansas, Kansas and Nevada, and to Qwest in Montana, Utah, Washington, Wyoming, Colorado, Idaho, Iowa, Nebraska, North Dakota, South Dakota, New Mexico and Oregon We may also increasingly face competition from companies offering local and long distance data and voice services over the Internet Such companies could enjoy a significant cost advantage because they do not currently pay many of the charges or fees that we have to pay

The Internet services market is highly competitive and there are limited barriers to entry We expect that competition will continue to intensify Our competitors in this market include Internet service providers, incumbent local carriers, other telecommunications companies, online service providers, cable companies, and Internet software providers

Our need to comply with extensive government regulation can increase our costs and slow our growth. Our networks and the provision of telecommunications services are subject to significant regulation at the federal, state and local levels Delays in receiving required regulatory approvals or the enactment of new adverse regulation or regulatory requirements may slow our growth and have a material adverse effect upon us

The FCC exercises jurisdiction over us with respect to interstate and international services We must obtain and have obtained through our subsidiary, Allegiance Telecom International Inc , prior FCC authorization for installation and operation of international facilities and the provision including by resale of international long distance services

State regulatory commissions exercise jurisdiction over us because we provide intrastate services We are required to obtain regulatory authorization and/or file tariffs at state agencies in most of the states in which we operate If and when we seek to build our own network segments local authorities regulate our access to municipal rights-of-way Constructing a network and selling and maintaining telephone equipment is also subject to numerous local regulations such as building codes and licensing Such regulations vary on a city by city and county by county basis In some states we are required to obtain state contractor licenses If we do not obtain such required licenses we may be subject to fines, revocation of our certificates and licenses and other penalties

Regulators at both the federal and state level require us to pay various fees and assessments, file periodic reports, and comply with various rules regarding the contents of our bills, protection of subscriber privacy, service quality and similar matters on an ongoing basis

We cannot assure you that the FCC or state commissions will grant required authority or refrain from taking action against us if we are found to have provided services without obtaining the necessary authorizations, or to have violated other requirements of their rules and orders Regulators or others could challenge our compliance with applicable rules and orders Such challenges could cause us to incur substantial legal and administrative expenses and cause material adverse effects

In addition federal and state regulators regulate our ability to discontinue services and/or change prices to our customers We can give no assurance that we will be able to discontinue unprofitable services to our customers in a timely fashion Nor can we provide any assurance that we can raise prices or change our rate plans for such unprofitable services in a timely fashion Accordingly, we may be forced to continue to charge reduced prices for unprofitable services for the foreseeable future

Deregulation of the telecommunications industry involves uncertainties, and the resolution of these uncertainties could materially adversely affect our business The Telecommunications Act of 1996 remains subject to judicial review and additional FCC rulemaking, and thus it is difficult to predict what effect the legislation will have on us and our operations There are currently many regulatory actions underway and being contemplated by federal and state authorities regarding interconnection pricing access to and pricing for unbundled network elements and other issues that could result in significant changes to the business conditions in the telecommunications industry We cannot assure you that these changes will not have a material adverse effect upon us On February 20 2003, the FCC announced its decision in its triennial review of the obligations of incumbent carriers to provide competitors access to unbundled network elements A brief summary of that decision is provided under "The regulation of interconnection with incumbent local carriers involves uncertainties and the resolution of these uncertainties could adversely affect our business "

We continue to monitor our network from a performance and cost perspective and as a result, our network optimization routines may have an adverse effect on our customers Our engineering and operations organizations continually monitor and analyze the utilization of our network As a result, they may develop projects to modify or eliminate network circuits or colocation facilities that are underutilized or unprofitable This ongoing process may result in limited network outages for a subset of our customers, adversely affecting our relationship with them and may increase our customer disputes and/or customer churn

Our common stock is an extremely risky investment for a variety of reasons, including those listed in the "Bankruptcy Related Risk Factors" above. Allegiance Telecom, Inc 's common stock is currently traded on the Over the Counter Bulletin Board under the symbol "ALGXQ OB " The NASDAQ National Market delisted the common stock on May 27, 2003 We believe there is now decreased liquidity of our common stock Extreme caution should be exercised with respect to investments in any of such securities

Our past acquisitions may be difficult to integrate, disrupt our business, dilute our stockholders and divert management attention We have acquired a number of companies as part of our business plan, especially companies that provide Internet and web hosting services Acquisitions involve risks and present issues, including, among others

- the difficulty of integrating the acquired operations, including provisioning, billing and customer service systems,

- the diversion of personnel from other business concerns and potential disruption of our ongoing business,
- expectations of financial results not being met,
- unanticipated costs associated with acquisitions,
- the difficulty in combining the service offerings of the acquired company with our existing service offerings,
- the inability of management to maintain uniform standards, controls, procedures and policies,
- the risks of entering businesses and markets in which we have little or no direct prior experience,
- the impairment of relationships with employees or customers of the acquired company as a result of changes in management or otherwise arising out of such transactions,
- use of some of our available cash to purchase these businesses, and
- dilution of current stockholders due to issuances of additional securities as consideration for acquisitions

We can make no assurances that we will be able to successfully integrate acquired businesses or operations that we have acquired In addition we may not achieve the anticipated benefits from our acquisitions If we fail to achieve the anticipated benefits from such acquisitions we may incur increased expenses and experience a shortfall in our anticipated revenues and we may not obtain a satisfactory return on our investment

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

Our investment policy is limited by our existing bond indentures and senior credit agreement We are restricted to investing in financial instruments with a maturity of one year or less The indentures require investments in high quality instruments, such as obligations of the U S government or any agency thereof guaranteed by the United States of America, money market deposits and commercial paper with a rating of A1/P1

We are thus exposed to market risk related to changes in short-term U S interest rates We manage these risks by closely monitoring market rates and the duration of our investments We do not enter into financial or commodity investments for speculation or trading purposes and are not a party to any financial or commodity derivatives

Interest income earned on our investment portfolio is affected by changes in short-term interest rates We believe that we are not exposed to significant changes in fair value because of our conservative investment strategy However, the estimated interest income for 2003, based on the estimated average 2002 earned rate on investments, is $4 0 million Assuming a 100-basis-point drop in the estimated average rate, we would be exposed to a $2 8 million reduction in interest income for the year The following table illustrates this impact on a quarterly basis

	Quarter Ending				
	March 2003	June 2003	September 2003 (dollars in millions)	December 2003	Total
Estimated average investments	$ 274 0	$ 266 4	$ 276 9	$ 270 8	
Estimated average interest earned at the average rate of 1 44% for the year ended December 31, 2002	1 0	1 0	1 0	1 0	$ 4 0
Estimated impact of interest rate drop	0 7	0 7	0 7	0 7	2 8

Our outstanding long-term debt consists both of long-term, fixed rate notes, not subject to interest rate fluctuations, and our senior secured credit facilities Borrowings under our senior secured credit facilities incur interest at a variable rate, based on leverage ratios, and is currently the London Interbank Offered Rate plus 4 50% Our blended borrowing rate, taking new borrowings into account, is now 5 63% per annum and this interest rate will remain fixed until December 24, 2003

Therefore we will not be exposed to market risk related to rate fluctuations until the end of the fourth quarter of 2003

Beginning in December 2003 we will be exposed to market risk related to market changes in the London Interbank Offered Rate and other market indexes Based on our current level of debt the impact of a 100-basis-point increase in our average interest rate would cause an increase in interest expense during 2003 of less than $0 1 million

ITEM 4 ***Controls and Procedures***

Our principal executive officer and our principal financial officer after management's evaluation with the participation of such officers have evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report, and have concluded that based on such evaluation that our disclosure controls and procedures were effective There was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting

The company's management including the CEO and CFO, does not expect that our disclosure controls or our internal controls will prevent all error and all fraud A control system no matter how well conceived and operated, can provide only reasonable not absolute assurance that the objectives of the control system are met Further the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs Because of the inherent limitations in all control systems no evaluation of controls can provide absolute assurance that all control issues and instances of fraud if any within the company have been detected These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected Based upon the controls evaluation, our CEO and CFO have concluded that subject to the limitations noted above, as of the date of the controls evaluation our disclosure controls and procedures were effective to provide reasonable assurance that material information relating to us is made known to management including the CEO and CFO, particularly during the period when our periodic reports are being prepared

PART II OTHER INFORMATION

ITEM 1. ***Legal Proceedings***

On May 14, 2003, Allegiance Telecom Inc and all of its direct and indirect wholly owned subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York The reorganization is being jointly administered under the caption "In re Allegiance Telecom, Inc et al Case No 03-13057 (RDD) " We are authorized under Chapter 11 to continue to operate as an ongoing business as "debtors in possession," but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court As of the date of the bankruptcy filing, most pending litigation is stayed The rights and claims of various creditors and security holders will be determined by a plan of reorganization and under the priority rules established by the Bankruptcy Code certain post-petition liabilities and certain pre-petition liabilities (e g , our senior secured debt) need to be satisfied before unsecured creditors or stockholders are entitled to any distribution Any Chapter 11 plan filed by us may provide that unsecured creditors of subsidiaries of Allegiance Telecom, Inc will need to be satisfied before any distribution to the unsecured creditors or stockholders of Allegiance Telecom, Inc As a result, a plan of reorganization could result in holders of our bonds receiving little or no value as part of the plan of reorganization Based on current discussions with our creditors regarding a plan of reorganization, Allegiance Telecom, Inc common stock will probably receive no value as part of the reorganization In light of the foregoing, we urge that extreme caution be exercised with respect to existing and future investments in any of such securities and claims A plan of reorganization must be confirmed by the Bankruptcy Court At this time, it is not possible to predict accurately the effect of the Chapter 11 reorganization process on our business our creditors or our stockholders or when we may emerge from Chapter 11 Our future results depend on the timely and successful confirmation and implementation of a plan of reorganization

ITEM 2. ***Changes in Securities and Use of Proceeds***

Not applicable

ITEM 3 ***Defaults Upon Senior Securities***

On April 30, 2003 we publicly announced that we were in default under the terms of our senior credit agreement We were in default under the senior credit agreement because we failed to, among other things (1) comply with the total leverage covenant which prohibited us from having more than $645 million in debt as of April 30, 2003, (2) comply with the free cash flow covenant, which required us to have no more than negative $19 million of free cash flow in the first quarter of 2003 (3) comply with the leverage interest coverage and debt service ratios (4) deliver an unqualified audit opinion for the period ended December 31, 2002 and (5) enter into a permanent amendment to our senior credit agreement On April 29, 2003, we received a forbearance from our lenders until May 15 2003 On May 1, 2003, we filed a Form 8-K describing and attaching this press release and forbearance agreement As a result of our bankruptcy filing, there is an event of default under our senior credit agreement as well as our two indentures

ITEM 4 ***Submission of Matters to a Vote of Security Holders***

We did not submit any matter to a vote of our stockholders during the quarter ended September 30 2003

ITEM 5 ***Other Information***

None

ITEM 6 ***Exhibits and Reports on Form 8-K***

(a) The following exhibits are filed with this report and made a part hereof

Exhibit Number	Description
11 1	Statement regarding computation of per share loss for the three months ended September 30, 2003
11 2	Statement regarding computation of per share loss for the nine months ended September 30, 2003
11 3	Statement regarding computation of per share loss for the three months ended September 30, 2002
11 4	Statement regarding computation of per share loss for the nine months ended September 30, 2002
31 1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31 2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32 1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32 2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

Allegiance Telecom, Inc filed a current report on Form 8-K on July 28, 2003 reporting that it was postponing its annual stockholders' meeting originally scheduled for July 29 2003

Allegiance Telecom, Inc filed a current report on Form 8-K on July 31, 2003 announcing that Allegiance Telecom Inc and all of its subsidiaries filed their monthly operating statement for the months of May and June 2003 with the U S Bankruptcy Court for the Southern District of New York

Allegiance Telecom, Inc filed a current report on Form 8-K on August 22, 2003 discussing its results of operations and financial condition for the fiscal quarter ended June 30 2003

Allegiance Telecom, Inc filed a current report on Form 8-K on September 4, 2003 announcing that Allegiance Telecom Inc and all of its subsidiaries filed their monthly operating statement for the month of July 2003 with the U S Bankruptcy Court for the Southern District of New York

Allegiance Telecom, Inc filed a current report on Form 8-K on September 29, 2003 announcing that Allegiance Telecom, Inc and all of its subsidiaries filed their monthly operating statement for the month of August 2003 with the U S Bankruptcy Court for the Southern District of New York

Allegiance Telecom Inc filed a current report on Form 8-K on October 31 2003 announcing that Allegiance Telecom, Inc and all of its subsidiaries filed their monthly operating statement for the month of September 2003 with the U S Bankruptcy Court for the Southern District of New York

Allegiance Telecom, Inc filed a current report on Form 8-K on November 10 2003 discussing its results of operations and financial condition for the fiscal quarter ended September 30, 2003

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

ALLEGIANCE TELECOM INC

By /s/ Royce J Holland
Royce J Holland,
Chairman of the Board and
Chief Executive Officer

By /s/ Thomas M Lord
Thomas M Lord,
Executive Vice President of Corporate
Development and Chief Financial Officer

Dated November 19, 2003

INDEX TO EXHIBITS

Exhibit Number	Description
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11 2	Statement regarding computation of per share loss for the nine months ended September 30, 2003
11 3	Statement regarding computation of per share loss for the three months ended September 30, 2002
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Exhibit 11.1

ALLEGIANCE TELECOM, INC.
(Debtors and Debtors-In-Possession)
COMPUTATION OF PER SHARE EARNINGS (LOSS)
THREE MONTHS ENDED SEPTEMBER 30, 2003
(Dollars in thousands, except per share amounts)

	Number of Shares	Percent Outstanding	Equivalent Shares
Prior to Initial Public Offering			
1997 Common Stock Offering	639	100 00%	639
After Initial Public Offering			
1998 Common Stock Offering	15 000,000	100 00%	15 000 000
Preferred Stock Converted to Common Stock	60 511,692	100 00%	60,511,692
1999 Common Stock Offering	21 041,100	100 00%	21,041,100
2000 Common Stock Offering	10,703,109	100 00%	10,703,109
Cash in Lieu of Stock Split	(577)	100 00%	(577)
Treasury Shares	(327,495)	100 00%	(327,495)
Warrants	973,871	100 00%	973,871
Stock Options Exercised	1,362,257	100 00%	1,362,257
Employee Stock Discount Purchase Plan Shares Issued	3 458,578	100 00%	3,458,578
Common Stock Issued for Business Acquisitions	5,874,505	100 00%	5,874,505
Restricted Shares Issued to Employees	2,205 022	100 00%	2 205 022
WEIGHTED AVERAGE SHARES OUTSTANDING			120,802,701
NET LOSS APPLICABLE TO COMMON STOCK			$ (63 100,000)
NET LOSS PER SHARE BASIC AND DILUTED			$ (0 52)

Exhibit 11.2

ALLEGIANCE TELECOM, INC
(Debtors and Debtors-In-Possession)
COMPUTATION OF PER SHARE EARNINGS (LOSS)
NINE MONTHS ENDED SEPTEMBER 30, 2003
(Dollars in thousands, except per share amounts)

	Number of Shares	Percent Outstanding	Equivalent Shares
Prior to Initial Public Offering			
1997 Common Stock Offering	639	100 00%	639
After Initial Public Offering			
1998 Common Stock Offering	15 000 000	100 00%	15 000 000
Preferred Stock Converted to Common Stock	60,511,692	100 00%	60,511,692
1999 Common Stock Offering	21,041,100	100 00%	21 041,100
2000 Common Stock Offering	10,703,109	100 00%	10,703,109
Cash in Lieu of Stock Split	(577)	100 00%	(577)
Treasury Shares	(327,495)	100 00%	(327,495)
Warrants	973,871	100 00%	973,871
Stock Options Exercised	1,362,257	100 00%	1,362,257
Employee Stock Discount Purchase Plan Shares Issued	3,458 578	99 91%	3,455 455
Common Stock Issued for Business Acquisitions	5,874,505	100 00%	5,874,505
Restricted Shares Issued to Employees	2,205,022	94 77%	2,089,691
WEIGHTED AVERAGE SHARES OUTSTANDING			120,684,247
NET LOSS APPLICABLE TO COMMON STOCK			$ (275 581 000)
NET LOSS PER SHARE, BASIC AND DILUTED			$ (2 28)

Exhibit 11.3

ALLEGIANCE TELECOM, INC
(Debtors and Debtors-In-Possession)
COMPUTATION OF PER SHARE EARNINGS (LOSS)
THREE MONTHS ENDED SEPTEMBER 30, 2002
(Dollars in thousands, except per share amounts)

	Number of Shares	Percent Outstanding	Equivalent Shares
Prior to Initial Public Offering			
1997 Common Stock Offering	639	100 00%	639
After Initial Public Offering			
1998 Common Stock Offering	15 000,000	100 00%	15,000 000
Preferred Stock Converted to Common Stock	60,511,692	100 00%	60,511,692
1999 Common Stock Offering	21,041,100	100 00%	21 041,100
2000 Common Stock Offering	10,703,109	100 00%	10,703,109
Cash in Lieu of Stock Split	(577)	100 00%	(577)
Treasury Shares	(327,495)	100 00%	(327,495)
Warrants	768 021	99 84%	766,784
Stock Options Exercised	1,362,257	100 00%	1,362,257
Employee Stock Discount Purchase Plan Shares Issued	2,319,736	99 48%	2 307,692
Common Stock Issued for Business Acquisitions	5,558 747	100 00%	5,558,747
Restricted Shares Issued to Employees	1 226,768	22 2%	273 463
WEIGHTED AVERAGE SHARES OUTSTANDING			117,197 411
NET LOSS APPLICABLE TO COMMON STOCK			$ (113 110,000)
NET LOSS PER SHARE, BASIC AND DILUTED			$ (0 97)

Exhibit 11 4

ALLEGIANCE TELECOM, INC
(Debtors and Debtors-In-Possession)
COMPUTATION OF PER SHARE EARNINGS (LOSS)
NINE MONTHS ENDED SEPTEMBER 30, 2002
(Dollars in thousands, except per share amounts)

	Number of Shares	Percent Outstanding	Equivalent Shares
Prior to Initial Public Offering			
1997 Common Stock Offering	639	100 00%	639
After Initial Public Offering			
1998 Common Stock Offering	15,000,000	100 00%	15 000 000
Preferred Stock Converted to Common Stock	60,511,692	100 00%	60,511,692
1999 Common Stock Offering	21 041 100	100 00%	21 041 100
2000 Common Stock Offering	10,703,109	100 00%	10,703,109
Cash in Lieu of Stock Split	(577)	100 00%	(577)
Treasury Shares	(327,495)	100 00%	(327,495)
Warrants	768 021	99 76%	766 154
Stock Options Exercised	1,362,257	98 56%	1,342,591
Employee Stock Discount Purchase Plan Shares Issued	2 319,736	76 53%	1,775 294
Common Stock Issued for Business Acquisitions	5,558,747	99 51%	5,531,523
Restricted Shares Issued to Employees	1,226,768	7 51%	92 156
WEIGHTED AVERAGE SHARES OUTSTANDING			116,436 186
NET LOSS APPLICABLE TO COMMON STOCK			$ (452,515,000)
NET LOSS PER SHARE BASIC AND DILUTED			$ (3 89)

Exhibit 31.1

CERTIFICATION

I Royce J Holland certify that

1 I have reviewed this quarterly report on Form 10-Q of Allegiance Telecom, Inc ,

2 Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made in light of the circumstances under which such statements were made not misleading with respect to the period covered by this report

3 Based on my knowledge the financial statements, and other financial information included in this report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report

4 The registrant s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have

(a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to us by others within those entities particularly during the period in which this report is being prepared,

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation, and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5 The registrant s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions)

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, and

(b) Any fraud whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

/s/ ROYCE J HOLLAND

Date November 19, 2003

Royce J Holland, *Chairman and Chief Executive Officer*

Exhibit 31 2

CERTIFICATION

I, Thomas M Lord certify that

1 I have reviewed this quarterly report on Form 10-Q of Allegiance Telecom Inc ,

2 Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,

3 Based on my knowledge the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report,

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared,

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation, and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting and

6 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions)

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal control over financial reporting

/s/ THOMAS M LORD

Thomas M Lord, *Executive Vice President of Corporate Development and Chief Financial Officer*

Date November 19, 2003

Exhibit 32.1

SECTION 906 CERTIFICATION

The undersigned hereby certifies, in accordance with 18 U S C 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 in his capacity as an officer of Allegiance Telecom Inc (the "Company"), that, to his knowledge the Quarterly Report of the Company on Form 10-Q for the period ended September 30 2003 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents in all material respects the financial condition and results of operations of the Company

		/s/ ROYCE J HOLLAND
		Name Royce J Holland
Dated November 19 2003	By	Title *Chairman and Chief Executive Officer*

Exhibit 32.2

SECTION 906 CERTIFICATION

The undersigned hereby certifies, in accordance with 18 U S C 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Allegiance Telecom, Inc (the "Company"), that, to his knowledge the Quarterly Report of the Company on Form 10-Q for the period ended September 30 2003 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company

Dated November 19, 2003

By /s/ THOMAS M LORD

Name Thomas M Lord,
Title *Executive Vice President of Corporate Development and Chief Financial Officer*